



Office of Inspector General

U.S. International Development Finance Corporation

Top Management Challenges Facing DFC in 2021





Message from the Inspector General



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The Development Finance Corporation (DFC) was created by the Better Utilization of Investments Leading to Development Act of 2018 ([BUILD Act](#)) and was directed to blend personnel from the U.S. Agency for International Development (USAID) and the Overseas Private Investment Corporation (OPIC) into a single organization. DFC is an independent Executive Branch agency that partners with the private sector to finance solutions to the most critical challenges facing the developing world today, which advances economic growth and promotes U.S. national security interests. DFC's private sector tools provide a critical bridge between federal resources and dynamic private sector driven development.

Through DFC, the U.S. Government accelerates the flow of private capital to less developed countries by supporting private sector investments that cannot obtain financing from other sources. This support is essential to advancing key sectors, such as infrastructure, agriculture, and health, which improve the quality of life for millions and lay the groundwork for modern, inclusive, and sustainable economies. DFC has outlined investments of over \$25 billion and aims to mobilize an additional \$50 billion in private sector capital – for a total of \$75 billion – to reach more than 30 million people by the end of 2025.



Previously, the USAID Office of Inspector General (OIG) had oversight responsibilities over OPIC. The DFC OIG was created by the BUILD Act of 2018 and derives its authority from the Inspector General Act of 1978 ([IG Act](#)), as amended, to provide independent oversight of DFC to prevent waste, fraud, and abuse; as well as promote economy, effectiveness, and efficiency in DFC operations. This helps ensure the U.S. Government achieves maximum return on investments. I was appointed as the first DFC Inspector General in August 2020. Our office supports DFC’s mission through audits and investigations that identify improvements to the management and execution of its operations and programs. As part of this oversight, the Reports Consolidation Act of 2000 (Public Law 106–531) requires Federal agencies to include in their performance and accountability reports a statement by their Inspector General summarizing the most serious management and performance challenges facing the agency and progress in addressing those challenges.¹ From recent audits and investigations conducted by USAID OIG, DFC OIG identified four top management challenges for DFC in fiscal year 2021:

- ***Managing Risks While Balancing Revenues Against Operating Costs.*** The mission of DFC is to invest with private sector partners to advance the interests of the American people through development in emerging markets. While the BUILD Act does not require it, for decades, DFC (formerly OPIC) has a cumulative record of generating earnings for the U.S. Treasury and contributed billions towards deficit reduction. However, the BUILD Act states that in general DFC shall prioritize the provision of support in less developed countries with a low-income economy or a lower-middle-income economy.² This will translate to additional risks and an emphasis on

¹ Public Law 106-531: section (5)(b). “each program performance report shall contain an assessment by the agency head of the completeness and reliability of the performance data included in the report. The assessment shall describe any material inadequacies in the completeness and reliability of the performance data, and the actions the agency can take and is taking to resolve such inadequacies.” <https://uscode.house.gov/statutes/pl/106/531.pdf>.

² Per the BUILD Act of 2018, Section 1412(c), support to less developed countries with an upper-middle-income economy is restricted unless the President certifies that such support furthers the national economic or foreign policy interests of the U.S or it is designed to produce significant developmental outcomes or provide developmental benefits to the poorest population of that country.



proactively managing those risks. These countries are now facing a combination of demand shocks reducing income availability, and supply shocks disrupting global supply chains due to the COVID-19 pandemic. Also, the flow of substantial funding into crisis environments increases the risk of fraud, a top management challenge that has been reported by USAID for several years running.

- ***Increase Partnerships with Agencies to Efficiently and Effectively Advance U.S. Foreign Policy and Security Objectives.*** The BUILD Act, DFC reorganization plan, and the coordination report³ indicate several areas where there is a need for strong linkages among the DFC, State Department, USAID, Millennium Challenge Corporation, and other agencies. DFC has taken the first step in its selection of a Chief Development Officer (CDO). The Office of Strategic Initiatives⁴ along with the CDO will be responsible for developing the linkage with these agencies.
- ***Improve Performance Management, Transparency, Accuracy and Availability of Project Data as DFC's Commitments Grow.*** Previous audits have identified areas to improve DFC's broader performance management framework, as well as measuring the projected development effects of projects. The BUILD Act require the DFC to develop a performance measurement system to evaluate and monitor projects and to guide plans for future projects, which DFC has begun addressing with its creation of the Impact Quotient (performance measurement tool) and a draft transparency policy. DFC's challenge will be meeting OMB's guidance to build and rely on a "portfolio of evidence"—quality data to make informed policy decisions and determine whether they are meeting the essential goals of their mission.

³ The BUILD Act, section 1462, required a report to the appropriations committee detailing the reorganization plan and coordination between DFC and USAID.

⁴ DFC's Human Resources department has communicated that the Office of Strategic Initiatives (OSI) has been dissolved and will no longer exist as of February 14, 2021, and its functions will be performed by the Office of Development Policy, front office, and other DFC personnel.



- ***Organizational Transition and Additional Responsibilities.*** DFC blended personnel from USAID and OPIC into a single organization in accordance with the BUILD Act. Merging organizational cultures, creating new ones, and embedding core values into all aspects of the new corporation is still evolving. This task is not facilitated by continued staff turnover, including at the highest levels in DFC—even as the organization is building and transforming itself to DFC. Leadership, organizational, and transformation skills of leaders are particularly important to the success of DFC as it implements its new mandates under the BUILD Act. In addition, DFC has assumed a new role in providing domestic manufacturing financial services, under the Department of Defense Product Act program, through which DFC assist DOD in its national response to the pandemic. DFC must ensure that its DPA commitments do not distract from or negatively impact its core mission of providing financial assistance to developing countries.⁵

This document will help inform our work and frame our dialogue with Congress, the new administration, and other stakeholders regarding their priorities for effective stewardship of U.S. funds dedicated to foreign assistance and development. DFC OIG remains committed to conducting thorough and timely audits and investigations of DFC programs and management, and when appropriate, recommending actions to help address the challenges we identify. Also, we appreciate the USAID OIG’s assistance to DFC OIG as we become fully operational.

If you would like to discuss or have any questions about DFC’s top management challenges for fiscal year 2021, please contact me at 202-408-6246.

Sincerely,

A handwritten signature in blue ink that reads "Anthony Zakel".

Anthony “Tony” Zakel
Inspector General

⁵ <https://www.dfc.gov/dpa>



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INTRODUCTION

On October 5, 2018, President Trump signed the *BUILD Act* into law—which reformed and strengthened U.S. development finance capabilities through the establishment of a new federal agency, the U.S. International Development Finance Corporation (DFC), to help address development challenges and foreign policy priorities of the United States. DFC started as an organization in January 2020.

More importantly, the *BUILD Act* provided DFC with new and innovative financial products to better bring private capital to the developing world. Development finance tools such as loans, guarantees, equity, and political-risk



insurance facilitate private-sector investment in developing countries that will have a positive—and measurable—developmental impact.

These are transactions the private sector will not conduct on their own because of known risks associated with the developing world. Limited backing from the U.S. Government can help catalyze significant amounts of private capital into developing countries. This backing is essential to supporting key sectors such as power, energy, and water; infrastructure; agriculture; and health that improve the quality of life for millions and lay the groundwork for creating modern economies and providing financing for women or other borrowers that do not have sufficient access to commercial financing.

In accordance with the BUILD Act, the DFC is to provide countries a robust alternative to state-directed investments by authoritarian governments and United States strategic competitors. The DFC better incentivizes private sector-led development projects in developing countries that adhere to high standards and are financially viable over the long-term, while ensuring that contracts are transparent, and that transactions properly assess economic and social impacts. This encourages more American businesses to invest in developing markets, thus using private sector investments instead of relying on public funding for these investments, including those of key national security importance to the United States.



Manage Risks While Balancing Revenues Against Operating Costs.

The mission of DFC is to invest with private sector partners to advance the interests of the American people through development in emerging markets. However, DFC must properly balance the risk of these investments in emerging markets to ensure the investments do not become an undue burden to the American taxpayers. For decades, OPIC (now DFC) has a cumulative record of generating earnings for the U.S. Treasury and contributed billions towards deficit reduction with their financing efforts. DFC reported cumulative results of operations of over \$6 billion as of the end of Fiscal year 2020.

The BUILD Act provided DFC with new and innovative financial products. However, it also requires that DFC focus and prioritize development work in low-income and low-middle income countries⁶. DFC is not prohibited from operating in upper-middle income countries, but generally restricts its support in those countries to projects involving U.S. investors, women entrepreneurs, or infrastructure. DFC

⁶ BUILD Act of 2018, Section 1412(c).



has established a target of 60 percent of its work in low-income and low-middle income countries. In addition, the BUILD Act removed the restriction that investors must be American companies—thus opening the way to permit foreign entities to do business with DFC.

DFC added new commitments of \$4.8 billion in development financing, equity commitments, technical assistance, and political risk insurance to its diverse portfolio in Fiscal Year 2020 and has a goal of providing \$75 billion in private sector development catalyst funding by the end of 2025. The prioritization of projects in low-income and low-middle income countries will make the success of these projects more challenging and riskier. These countries are now facing a combination of demand shocks reducing income availability, and supply shocks disrupting global supply chains due to the COVID-19 pandemic. Also, the flow of substantial funding into crisis environments increases the risk of fraud, a top management challenge that has been reported by USAID for several years running. DFC will need to manage these risks accordingly to ensure the DFC meets its mission. This will require close monitoring of project results and balancing their use of debt financing, equity investments and political risk insurance.





Increase Partnerships with Agencies to Efficiently and Effectively Advance U.S. Foreign Policy and Security Objectives.

The BUILD Act, DFC reorganization plan, and coordination report indicate several areas where there is a need for strong linkages among the DFC, State Department, USAID, Millennium Challenge Corporation (MCC), and other agencies. However, prior USAID OIG work has highlighted significant continuing challenges in carrying out foreign assistance operations that involve multiple U.S. Government agencies, including difficulty balancing competing priorities and managing additional layers of review and overlapping jurisdictions.

For example, USAID OIG reported in its top management challenge for USAID in 2019 that implementing foreign assistance programs, projects, and operations that involve multiple U.S. Government agencies has presented significant challenges for USAID in achieving its core mission. In particular, coordination with the Department of State—which makes policy and funding decisions for operations related to political and security crises—has complicated USAID’s project planning and execution. Despite broad interagency guidance on the Department of State’s role in politically sensitive environments, USAID employees were sometimes unclear how best to manage additional layers of review, nimbly respond to changing priorities, address both U.S. diplomatic and development goals, and balance short- and long-term priorities. DFC executives and management have been traveling and coordinating with their counterparts in various agencies such as the State Department and USAID to further enhance their partnerships and understanding of the challenges facing various projects throughout the world. This is an excellent step in furthering the mission and goals of DFC.

DFC has taken steps to further liaison and coordinate with their various U.S. Government partners such as the Departments of State, Energy, Commerce and Treasury as well as the Export-Import Bank. For example, in October 2020 DFC traveled with these U.S. Government partners to Indonesia, Vietnam, and Burma to show the strength of collaborating with the U.S. Government and using each agency’s specific tools to address pressing global issues and provide investment in strategic priority countries. The Office of Strategic Initiatives and DFC’s 2X



Women's initiative has also developed ties and collaborated with various agencies such as USAID and MCC.

The DFC Chief Development Officer (CDO) and the Office of Strategic Initiatives coordinates DFC's development policies and implementation efforts with USAID, the Millennium Challenge Corporation, and other relevant United States Government departments and agencies. This includes directly liaising with missions of USAID, to ensure that all such departments, agencies, and missions have training, awareness, and access to DFC's tools in relation to development policy and projects in countries.

The DFC appointed its first CDO in February 2020. The CDO is responsible for driving measurable development impact by DFC and ensuring DFC's portfolio meets its development mandate at the strategic level. In addition, the CDO manages DFC's structuring, monitoring, and evaluation of transactions and projects co-designed with USAID and other relevant government departments and agencies; and authorizes and coordinates transfers of funds or other resources to and from such agencies, departments, or missions upon the concurrence of those institutions in support of the Corporation's projects or activities;

However, the Deputy CDO position remains vacant and 2 of the 5 managing director positions are currently vacant. The managing directors are responsible for: (1) Strategy Execution; (2) Training Capacity Building, and Interagency Coordination; (3) External Coordination; (4) Policy, Impact, and Learning and Internal Coordination; and (5) Upstream Business Development. DFC also has critical vacancies as part of the Presidential transition and filling those positions along with the CDO vacancies are critical to ensuring the success of its partnerships with the various government agencies.

The CDO's office, as well as the Office of Strategic Initiatives and 2X Women's initiative, play significant roles in the success of DFC to carry out the developmental aspects of its mission and its coordination with key government agencies and it is important that the DFC determine the appropriate amount of resources, define key authorities, and assess agency staff levels to achieve these



partnerships and objectives. This coordination with key government agencies will be critical to the long term success of DFC and its programs.



Improve Performance Management, Transparency, Accuracy and Availability of Project Data as DFC's Commitments Grow.

Previous audits of OPIC identified areas of improvements in OPIC's broader performance management framework which will thus require special attention from the DFC. Specifically, DFC's Will need to ensure processes for assessing and aligning prospective projects with DFC's strategic goals and articulate how it defined or measured progress toward its goals. This is particularly significant for DFC, as the Government Accountability Office's (GAO) guidance on



successful mergers underscores the need to develop coherent strategic goals and measure progress toward those goals.

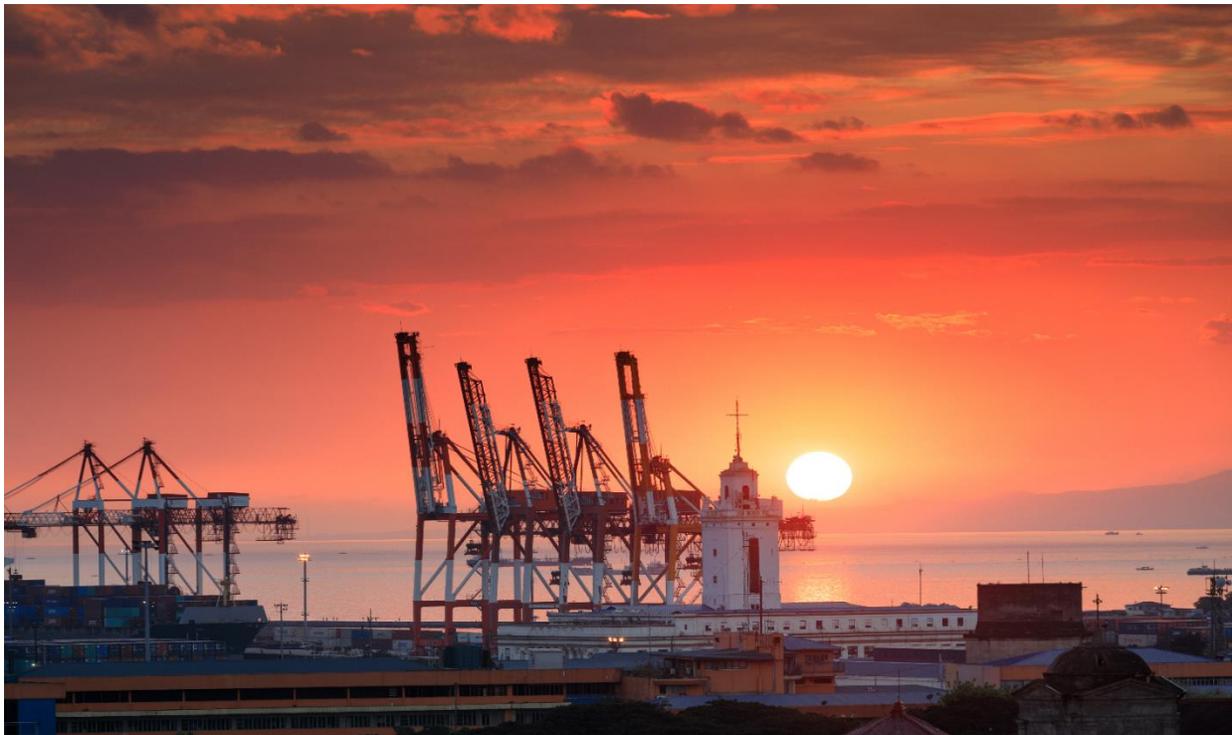
USAID OIG's work also showed that OPIC lacked the business practices necessary to ensure it captured sufficient data to track progress in carrying out its mission, advancing U.S. foreign policy, or capturing the development impact of its projects. This work showed placed insufficient attention on other aspects of mission achievement, such as ensuring projects met key development goals.

USAID OIG also identified weaknesses in OPIC's approach for measuring the projected development effects of projects. In many instances, OPIC did not require applicants to provide supporting documentation to verify the development impacts of its projects. In other instances, OPIC changed information about projected development impact in borrowers' applications without obtaining support for the changes. Additionally, site visits were limited and OPIC relied on borrowers to self-report information on results. By contrast, best practices noted in OMB's guidance call for agencies to build and rely on quality data to make informed policy decisions and determine whether they are meeting the essential goals of their mission. Similarly, the BUILD Act calls on DFC to develop a performance measurement system to evaluate and monitor projects and to guide plans for future projects. The availability of transparent and accurate project data will be a key for DFC to determine whether projects are meeting their expected development goals.

DFC has developed a performance management framework with the development of the Impact Quotient (IQ) performance measurement tool and a draft transparency policy. DFC developed the IQ to measure, monitor, and evaluate its developmental impact around the world. DFC consulted more than 50 stakeholders, including investors, development finance institutions, and partners in the U.S. Government, in the development of IQ and continues to solicit feedback as the agency works to continuously improve the tool. A team of DFC economists and environmental and social policy analysts utilize IQ to evaluate projects based on three key indicators (growth, inclusion, and innovation) and make adjustments to account for potential negative environmental, social, or development risks.



While DFC has taken steps to implement performance management tools such as IQ and has developed a draft transparency policy, challenges remain to fully implement a mature performance management framework within the newly created organization. Specifically, DFC’s monitoring and evaluation of project development has been an area of concern as it often relies on self-reported information from clients. A mature framework will ensure there is available, transparent, and accurate financial and project data to fully monitor and evaluate actual project development. This will assist DFC in meeting OMB’s guidance to build and rely on a “portfolio of evidence”—quality data to make informed policy decisions and determine whether they are meeting the essential goals of their mission.



Organizational Transition and Additional Responsibilities.

DFC seeks to blend personnel from USAID and OPIC into a single organization in accordance with the BUILD Act. It will be challenging to merge organizational cultures and develop and embed core values into all aspects of the new



corporation. DFC currently has vacancies in key positions including those that were held by political appointees and are changing with the new administration. Ensuring stability and continuity at leadership positions as it evolves from OPIC to DFC, in addition to the transition to the new Administration, will be important to ensure the success of DFC in accomplishing its development mission.

DFC has developed a strategic plan that outlines its mission, vision and values which is the first step in developing a new organization and culture:



DFC has also assumed an additive role in providing domestic manufacturing financial services to assist our nation’s response to the pandemic and must ensure that this effort does not negatively impact its transition efforts and core mission of providing financial assistance to developing countries. On May 14, 2020, the President signed Executive Order 13922 to delegate to the DFC Chief Executive Officer (CEO) authority under the Defense Production Act loan program (DPA) to:



“further expand domestic production of strategic resources needed to respond to the COVID-19 outbreak, including strengthening relevant supply chains within the United States and its territories to ensure that our country has the capacity, capability, and strong and resilient domestic industrial base necessary to respond to the COVID-19 outbreak.”

Specifically, the Executive Order delegated to the DFC CEO, the authority to:

“make loans, make provision for purchases and commitments to purchase, and take additional actions to create, maintain, protect, expand, and restore the domestic industrial base capabilities, including supply chains within the United States and its territories (“domestic supply chains”), needed to respond to the COVID-19 outbreak.”

It is critical that DFC meet the challenge of merging various organizational cultures and instilling the mission, vision, and values of DFC into the new organizational culture. This challenge is exacerbated by the added roles and responsibilities with the implementation of new and innovative financial products and the DPA loan program.



MANAGEMENT'S COMMENTS



February 19, 2021

TO: Anthony "Tony" Zakel, Inspector General
FROM: Dev Jagadesan, Acting Chief Executive Officer
SUBJECT: Response to Inspector General's Report
on the Top Management Challenges facing DFC in 2021

The U.S. International Development Finance Corporation concurs with the four top management challenges as identified in the Inspector General's report:

- Managing Risks While Balancing Revenues Against Operating Costs.
- Increase Partnerships with Agencies to Efficiently and Effectively Advance U.S. Foreign Policy and Security Objectives.
- Improve Performance Management, Transparency, Accuracy and Availability of Project Data as DFC's Commitments Grow.
- Organizational Transition and Additional Responsibilities.

DFC has instituted several programs, projects, and initiatives to address these challenges and will continue to work towards minimizing the impact of these challenges in the coming years.

 Digitally signed by Dev Jagadesan
Date: 2021.02.26 14:51:19 -05'00'
Dev Jagadesan
Acting Chief Executive Officer



Office of Inspector General
U.S. Development Finance Corporation



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